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RUEHBU/AMEMBASSY BUENOS AIRES 1803
RUEHKK/AMEMBASSY KHARTOUM 0593
RUEHWR/AMEMBASSY WARSAW 1077
RUEHBR/AMEMBASSY BRASILIA 2306
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RUEHUB/USINT HAVANA 0284
RUEHBUL/AMEMBASSY KABUL 0885
RUEHUM/AMEMBASSY ULAANBAATAR 0127

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SUBJECT: SEPTEMBER 2009 PARIS CLUB MEETING; NEGOTIATION WITH CAR

¶1. (SBU) Summary: On September 15, the Paris Club and the Central African Republic (CAR) negotiated a new debt relief agreement recognizing that country's completion of the enhanced Heavily Indebted Poor Countries (HIPC) initiative. Creditors agreed voluntarily to go beyond HIPC terms to forgive all but \$3.7 million of their claims on the CAR. After disagreeing about the Paris Club's proper role in the debt restructuring negotiations between Kazakh banks and foreign export credit agencies, the Club agreed on a new letter to the Finance Minister. The letter emphasized the need for a fair process and "insisted" that creditors be given adequate time to consider options. Creditors discussed Argentina's stated new willingness to address arrears, recognizing that previous similar Argentine overtures were not implemented. Regarding the Brazilian loan to Argentina, creditors accepted U.S. suggestions to strengthen a draft letter to the Brazilian finance minister; the letter makes clear the Club's disappointment that Brazil made the loan, as well as that it had not notified the club.

¶2. (SBU) On the Democratic Republic of the Congo (DRC), the IMF was still awaiting China's signature of the revised loan agreement for a Chinese-financed project. The French-led Secretariat hailed the significant progress the revised loan agreement represented. Other creditors were very skeptical, insisting on adequate time to review and discuss the IMF's forthcoming debt sustainability analysis before the Club meets in October or November to provide financing assurances for the DRC's IMF program. Brazil confirmed that it had

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signed an agreement with Suriname for clearing arrears, granting a 38% nominal discount on a total of \$118 million, in exchange for immediate payment of the balance. The Secretariat was bluntly critical, saying that creditor "solidarity had been breached." The Club would send a letter urging Suriname to clear its arrears to the U.S. in full. The UK Government has held consultations but not yet decided whether to move forward with legislation on "vulture" funds' efforts to secure full repayment from poor debtors. Further work had uncovered some difficult legal issues.

¶3. (U) Other countries discussed included: Algeria, Angola, Bahrain, Comoros, Cote d'Ivoire, Republic of Congo, Dominican Republic, Guinea, Jamaica, Seychelles, Ukraine, Vietnam, and Zimbabwe. Methodological issues discussed included the working group on treatment of guarantees, the Club's global data call, the reform of IMF programs and the Debt Sustainability Framework (DSF), and the Club's debt service reduction methodology. END SUMMARY.

Algeria

¶4. (U) France reported that state-owned Credit Populaire d'Algerie had requested to prepay at face value EUR 55 million of official development assistance (ODA) loans that had not been previously treated in a Paris Club agreement. The Algerian Ministry of

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Finance had also asked about ODA debts, though no formal proposal was made. France observed that it seemed odd, from a financial perspective, for Algeria to pre-pay low interest rate ODA loans. Some of the debts had contractual provisions allowing prepayment at any time.

¶5. (U) Italy argued that Algeria should make its offer to all Club creditors, particularly in view of Algeria's ample resources. The Secretariat agreed that it could look into coordinating a response if other creditors were interested. The Fund confirmed that Algeria was in a strong position, with few debts and large reserves. It had been little affected by the crisis, due to a lack of financial integration, and non-oil GDP growth was expected to reach 6% in ¶2009.

Angola

¶6. (SBU) The IMF reported that Angola's heavily oil-dependent economy had taken a turn for the worse, with a sharp contraction in GDP. Angola had expressed interest in an IMF lending program, and a mission had been there in early August to discuss one. Debt sustainability had worsened, with the country now rated at "moderate risk" of debt distress. The Fund still expected the risk to fall in the long run, however. The World Bank mentioned that it planned to

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loan about \$80 million to Angola in Fiscal Year 2010.

¶7. (SBU) In July, no creditors had expressed interest in participating in the debt swap initiative proposed by the Angolan Parliament. The Paris Club approved a reply from the Club Co-Chairperson rejecting the proposal and asserting that creditors expected to be paid as agreed. (Several days after the meeting, the finance minister sent another letter reiterating the request, but the substance of the Club's reply will remain unaffected.)

Argentina

¶8. (SBU) The discussion of Argentina focused on renewed hints that the country wanted to normalize relations with creditors, and on the Brazilian aircraft loan. The IMF reported that markets had calmed, although H1N1 influenza had had a major effect. Reserves remained stable at \$45 billion gross and an estimated \$35 billion net. Economy Minister Boudou had hinted at a desire to improve relations with the Fund, including by agreeing in principle to an Article IV review, though no date has been set.

¶9. (SBU) The Bank reported that the government was engaged in an effort to regain access to capital markets, and 76% of eligible debt had been tendered in the recent inflation-linked bond exchange. The

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Bank's new strategy foresaw \$3.3 billion in new investment lending. The Secretariat reported some informal contacts with the new minister's team, and that Club Chairman Fernandez was available to meet with Boudou. In their informal contacts, the Argentines had emphasized their desire to normalize relations. The U.S. delegation reported on AmEmbassy Buenos Aires DCM Tom Kelly's recent meeting with Minister Boudou and on Treasury DAS for Western Hemisphere Affairs Nancy Lee's previous meeting with Argentine Ambassador to the U.S. Timerman.

¶10. (SBU) Discussion then turned to the proposed letter to Brazil. The Secretariat had circulated a draft, which had criticized Brazil for not communicating with the Club about the loan and had asked a number of questions - the answers to many of which were already known. The U.S. had argued in advance that the letter should object to the fact of the loan, not just to Brazil's failure to inform the Club. The Secretariat and almost all other creditors argued that the U.S. position was too harsh, particularly since Brazil was not a Club member. The Club eventually agreed to a UK-proposed compromise, supported by Germany, that criticized both the fact of the loan and the lack of prior communication.

Bahrain

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¶11. (U) In July, the Netherlands had complained about nagging arrears issues with two Bahraini ministries. The Ministry of Housing had since made a payment of EUR 300,000, but another due date had passed so arrears had actually risen, to EUR 8.3 million. The Netherlands had heard nothing from the other debtor, the Ministry of Works. The Paris Club agreed to send a letter to the

authorities.

Central African Republic

¶12. (SBU) The Paris Club's September 15 HIPC "Completion Point" debt negotiations with the Central African Republic (CAR) went smoothly. In his opening statement, CAR Minister of Finance Abdalla-Kadre Assane touted reforms in the diamond and telecom sectors as well as in financial and business regulations. Assane also emphasized the CAR's commitment to seek comparable debt relief from its non-Paris Club creditors so that the CAR does not remain heavily indebted even after HIPC. The IMF reported that the CAR had made steady progress in implementing its Poverty Reduction and Growth Facility (PRGF) program, while noting the fragility of fiscal reforms and very low level of revenue collection. The World Bank highlighted the CAR's new forestry code and the country's first report under the Extractive Industries Transparency Initiative (EITI). Nevertheless, the CAR remains vulnerable to debt distress and its per capita

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income is among the lowest in the world.

¶13. (SBU) The Paris Club accounted for only a small portion of the country's debts, just \$46.1 million of \$854.3 million outstanding as of September 2007 when CAR entered the HIPC Initiative ("Decision Point") process. Following its normal seniority rules, the remaining debts after the agreed treatment were \$5.7 million owed to France, \$2.5 million to Japan, \$360,000 to the U.S. and small amounts to Austria, Germany, Italy, Switzerland, Russia and the U.K.

¶14. (SBU) Under creditors' various bilateral policies providing for voluntary debt cancellation beyond the HIPC initiative, creditors planned to forgive all of these debts except for \$5.5 million of the French claim, which represented previously-rescheduled, short-term debts. Perhaps because of the awkward optics, France later in the day indicated that it would go beyond its own policies to forgive the portion of that debt contracted before the Paris Club's 1983 cut-off date, leaving \$3.7 million outstanding.

¶15. (SBU) The U.S. delegation emphasized the importance of obtaining comparable treatment from other creditors, especially Taiwan, the largest bilateral official creditor. In response, Finance Minister Assane said that the CAR can only engage Taiwan through third parties and would continue its efforts to seek Paris Club-comparable debt relief from Taiwan.

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Comoros

¶16. (U) The Fund said the situation in Comoros was difficult, particularly because of political instability. However, GDP was expected to grow 1% in 2009, and the budget situation was improving. Comoros' track record of reform during its Emergency Post-Conflict Assistance (EPCA) IMF program had been "solid." This performance would allow the IMF Executive Board to consider a new PRGF program as soon as a payment issue with the World Bank had been resolved. (Comoros was over 45 days late on an \$824,000 payment, which had caused disbursements to be suspended. Comoros made the payment and the IMF approved the PRGF the following week.) The IMF reported that Comoros' debt was "clearly unsustainable," equivalent to more than 260% of exports. 80% of the debt was owed to multilaterals, just 4.5% to the Club. If the forthcoming debt sustainability analysis (DSA) confirms that Comoros is eligible for the HIPC initiative, the country could reach HIPC "Decision Point" in the first half of 2010.

¶17. (U) The new PRGF program paves the way for a Paris Club debt treatment. Even though there are just three Club creditors --

France, Italy and the U.K. (The USG is not a creditor.) -- a formal negotiation will be required. The Secretariat suggested inviting

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Kuwait and the UAE to participate in the negotiations (only Italy responded, expressing support, although the probability of acceptance seems slight). Negotiations are expected to take place in October or November.

Democratic Republic of Congo (DRC)

¶18. (SBU) The IMF had hoped to request financing assurances from the Paris Club at the September meeting to support a new PRGF lending program. The Fund was unable to do so, however, since the joint IMF/World Bank debt sustainability analysis (DSA) and other documents were not yet released. The delay was due to the fact that the Fund was still awaiting confirmation that China had signed the amendment to the mining/infrastructure loan package. (The physical document had to be sent to Beijing after the DRC authorities had signed.) The amendment reportedly cancels the second \$3 billion infrastructure loan, removes the DRC sovereign guarantee on the mining portion of the deal, and specifies that the sovereign guarantee on the remaining \$3 billion infrastructure loan can only be triggered after 25 years. The Secretariat characterized these developments as a great step forward. Once Fund staff see and review the signed amendment, the final DSA will be circulated, along with a technical note on the loan package's concessionality. The Fund now hoped that it could seek financing assurances at the

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October meeting, with negotiations possible in November or December. World Bank staff added that because of the loan's large potential macroeconomic impact, the Bank's Committee on Non-Concessional Borrowing would also need to assess the loan.

¶19. (SBU) The Netherlands asked whether the Secretariat foresaw a new Paris Club agreement, or a reactivation and extension of the previous one. They also asked whether forgiveness of arrears in a new agreement would reward the DRC's years of bad behavior, and whether relief could therefore be back-loaded. The Secretariat replied that a new agreement would be needed to cover payments coming due during the PRGF, that there would be no way to backload the treatment, and that attempting to do so would raise questions about equality of treatment relative to other HIPC's under similar circumstances, such as the Republic of Congo (Brazzaville).

¶20. (SBU) Japan asked about the long-delayed mining project feasibility study, indicating that Japan would not provide financing assurances until there was a clearer picture of how the project fit into the DRC's macroeconomic framework. The IMF opined that since there would no longer be a sovereign guarantee on the mining portion of the loan, the study was no longer relevant to the program. Belgium, Japan, and Germany disagreed, arguing that it was relevant in that revenues from the mining portion would be dedicated to paying for the infrastructure-related loan. Creditors were generally very skeptical toward the DRC, and were adamant that they

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expected to receive ample time to review the DSA and conditionality documents before providing financing assurances for the PRGF program.

Republic of Congo (Brazzaville)

¶21. (SBU) The IMF reported that Congo's performance on its PRGF program had been broadly satisfactory and that a Fund staff mission was in country to conduct the first stage of a HIPC "Completion Point" assessment. In particular, IMF staff planned to verify legal

texts and action plans for fulfilling performance "triggers" and to reconcile external debt data. In the fall, they would begin verifying implementation for those triggers that included implementation requirements.

¶22. (SBU) The Fund had examined Congo's recent \$800 million payment to so-called "vulture funds," including whether the settlement implied a need to revise debt data (since the debt stock was much larger than previously reported). The Secretariat said it still could not assess the comparability of the settlement until further clarifications were received from the authorities, and that the finance minister had said in a September 15 letter that there had been errors in the Congo's June 12 report on comparable treatment. As a result, the vulture fund settlement payment was likely even

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less comparable to Paris Club terms than previously thought. The IMF warned of possible problems in securing participation from 80% of Congo's creditors, a requirement of HIPC "Completion Point."

Cote d'Ivoire

¶23. (SBU) The IMF reported that a mission was in country to review the PRGF program. Preliminary indications were that end-June targets seemed to be on track, although progress on structural reforms was slow. The Bank reported the authorities were pursuing a London Club rescheduling of commercial debt. Talks with the London Club had been difficult, since that club was asserting that it had already provided HIPC-comparable treatment in its earlier agreement with the Cote d'Ivoire.

¶24. (SBU) The Secretariat said that the London Club's proposed terms were "rather comparable" to the Paris Club's treatment. London Club creditors were willing to apply a low 2.4% interest rate and accept a very long payment period - a six year grace period without principal payments followed by 23 years of repayment. The final deal, formally announced on September 28, results in a 90% reduction in debt service due while the PRGF is in effect and an overall 20% reduction (in present value terms) of the total debt. Non-London Club commercial creditors presented a more complex picture, with

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some debts being recent (related to multilateral arrears clearance), some securitized, and some denominated in CFA francs. Claims totaled some \$264 million, due by the end of 2011. Cote d'Ivoire had made an offer to these creditors similar to that made to the London Club, but the response had been very negative.

Dominican Republic

¶25. (U) The IMF reported that the Dominican Republic's strong economic growth had stagnated and would amount to an annualized rate of just 1% for the first half of 2009. An IMF mission was in the country to discuss a three-year lending program; however, the Fund did not expect that the Dominican Republic would seek a Paris Club treatment. The World Bank reported that \$150 million in new lending was under discussion.

Guinea

¶26. (SBU) Guinea had been on the verge of receiving HIPC "Completion Point" debt forgiveness at the time of December's coup. The Fund reported that short-term prospects had deteriorated, due to the global financial crisis and a fall in mining revenues. While the

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official exchange rate had not changed, the parallel market premium had risen significantly, to 16% in early September. The junta had made some attempts at maintaining fiscal discipline, and the primary fiscal balance remained positive. This discipline was slipping, however, giving way to increased central bank financing.

¶27. (SBU) Several creditors, including France and the U.S., reported that Guinea had made some debt payments during 2009. The Secretariat reminded creditors to hold such payments in reserve, in accordance with the Club's policy on providing interim HIPC debt relief, until a decision is made at a later date about whether to retain or refund the payments. Guinea had remained current on debt payments to the Fund through September, but had been late making debt payments to the multilateral development banks, including to the African Development Bank (AfDB). (The World Bank added that Guinea had earlier been late on some payments to its International Development Association, but was now current, and that the AfDB had been paid the previous week.) Guinea had also made some progress in efforts to obtain comparable debt relief from non-Paris Club creditors.

¶28. (SBU) The Fund was assessing relations with the country. President Moussa Camara's statement that he planned to run in the January 2010 elections, despite earlier commitments not to, make international recognition more difficult. The Fund was polling members in order to determine whether to seat a Guinean delegation

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at Annual Meetings. (This poll later determined that there is no Guinean government that the IMF should recognize or engage with.)

Jamaica

¶29. (SBU) In July, the Fund had reported on discussions with Jamaica regarding an IMF lending program. Since then, imbalances had intensified, with GDP expected to fall 3.8% in the current fiscal year, impacted by declines in tourism, remittances and bauxite prices. Further fiscal consolidation, a significant reduction in the interest bill, and a major improvement in medium-term fiscal policy were needed. The IMF and Jamaica continue to discuss a lending program; however, timing was uncertain. The IMF believed that the debt load had become unsustainable and that a restructuring is needed. Whether to approach the Club as part of the program remained an open question, but in the Fund's view, it would be "strange" not to include Paris Club creditors in a comprehensive debt restructuring. The World Bank reported having approved a \$100 million loan in January 2009 and ongoing discussions about additional loans. (Note: while it is not yet clear what form of debt treatment would be sought, the USG does not have funding or authorization in place to provide debt reduction to Jamaica.)

¶30. (SBU) The U.S. delegation reported on Treasury DAS for Western

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Hemisphere Affairs Nancy Lee's conversation with the Jamaican Ambassador to the U.S., prompting the IMF representative to observe that the authorities did not yet seem reconciled to the need for debt restructuring or deep reforms. The Secretariat reported that the debt stock was about \$6 billion, of which about \$500 million was owed to the Club. Canada reported that the Jamaican prime minister had called his Canadian counterpart to discuss IMF reforms, and had said (erroneously) that the Fund was conditioning an IMF program on Jamaica's willingness to seek a Paris Club debt restructuring.

Kazakhstan

¶31. (SBU) The IMF did not have any updates to the briefing provided in July. The World Bank described a "complicated" bank restructuring underway, noting that an estimated 20% of the total loan portfolio was non-performing and that President Nazarbaev was

"strongly reluctant" to use oil resources to recapitalize these banks. Just days before the September 16 meeting, the Club had received a response in Russian, dated September 3, to its letter from the Kazakh finance minister. The letter essentially reiterated the steps in the banking and financial sector restructuring taken to that point. The Secretariat reported the results of the recent data call, which was unusual in that it included data on loans to private banks. Paris Club creditors reported \$3.5 billion of exposure to

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Kazakhstan, of which Kazakh banks and financial institutions accounted for \$1.5 billion, including \$779 million owed by BTA Bank, \$95 million by Astana Finance, and \$60 million by Alliance. Fifteen Club members had reported exposure, as had non-member Korea.

¶32. (SBU) There was general agreement that the fact that the minister had replied, and at length, was a positive sign. Following the same lines as before, Italy argued strongly for a Club response, asserting that the debt to private banks was "close to" being Club debt. Italy pushed for another Club letter to endorse the export credit agencies' (ECA) position, including support for the Government of Kazakhstan to extend a sovereign guarantee, and for giving the ECAs more time to reach agreement (the deadline on BTA's offer was just two days later). Noting similarities between the situations in Ukraine and Kazakhstan, Italy also argued that the Club should at some point have a general discussion of debts owed by private banks that are directly or indirectly under sovereign control.

¶33. (SBU) Germany was at the other extreme, arguing first that it needed time to review the Kazakh letter and to consult with its ECA, then that the Club should not "interfere." Italy's position regarding a GOK guarantee received little support. There was widespread support for another letter, however, and given the deadline two days hence, a sense of urgency. It was eventually agreed that a letter should be sent, and the final text -- signed on

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the same day -- reiterated that the Club was following negotiations carefully, emphasized the need for a fair process, and "insisted" that creditors be given enough time to consider options.

Seychelles

¶34. (SBU) The Secretariat reported that the Seychelles had made progress in obtaining Paris Club-comparable debt relief: Seychelles had reached agreement with Malaysia on the same terms as the Club's April 2009 agreement (Malaysia had shown interest in participating in the negotiations but had not been ready to do so), and discussions with Kuwait had begun, though Libya would be "harder." The government's offer to bondholders, comprising three options, was moving forward, although there was not much likelihood of addressing the \$40-60 million in debt that was tied up in the Lehman Brothers bankruptcy.

¶35. (SBU) The Fund reported that the macroeconomic situation had stabilized and that reforms were proceeding. Negotiations with private creditors were transparent and credible, and the formal offer was expected to be made in late September or early October. The government was awaiting agreement on a partial guarantee from the African Development Bank, which Seychelles' advisors had indicated was essential for the exchange to succeed. The Fitch

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credit rating agency had been hired to rate the new bonds.

Suriname

¶36. (SBU) The IMF reported that GDP had grown 6% in 2008, but was expected to rise only 1.5% in 2009, reflecting weak bauxite and alumina prices on the one hand and strength in gold and construction on the other. Gross reserves were expected to rise to \$670 million (equivalent to six months of imports), from just \$160 million at end-2005. Suriname had made progress in settling arrears with official creditors, and public debt had fallen from 37% of GDP at end-2005 to 19% at end-2008, with external debt down from 21% of GDP to just 11% over the same period.

¶37. (SBU) The U.S. had asked that Suriname be placed on the agenda to discuss arrears and a reported debt agreement with Brazil. Prior to the plenary discussion, the Brazilian representative had mentioned the deal with Suriname to the U.S. delegation, inexplicably adding that the Surinamese had said that they needed contacts in the USG. (Discussions between USDA and Suriname's financial advisor are ongoing.) During the plenary, the U.S. noted reports of the deal, pointed out that it seemed to violate Paris Club principles, and asked Brazil for details. (Note: Creditors are supposed to keep the Club informed and attempt to coordinate

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efforts to obtain payment from countries even when the country is not pursuing an IMF lending program and/or Paris Club debt relief. End note)

¶38. (SBU) Brazil acknowledged that a deal had been reached involving \$118 million in non-concessional debt. In June, Brazil had offered Suriname two options:

-- Option 1: a rescheduling creating eleven semi-annual payments, the first after six months, with forgiveness of \$35 million of late interest after all payments were received; or

-- Option 2: full payment upfront, with forgiveness of \$45 million (a 38% nominal discount).

¶39. (SBU) The Surinamese had selected the second option the previous week and paid the \$72.8 million into escrow (since the deal needed approval from the Brazilian parliament). The Secretariat recalled the Club's discussions of Suriname over the past three years, during which several creditors, including Germany and Italy, had confessed to having settled arrears outside the Club. The Club Co-Chairperson was bluntly critical of Brazil, stating flatly that creditor "solidarity has been breached here." Norway attempted to defend Brazil, noting that solidarity did not prevent individual creditors from being more generous than the Club, but the Secretariat pointed out that this did not apply when a payment was received. The

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Secretariat offered to send a letter to Suriname, which the U.S. accepted.

Ukraine

¶40. (SBU) Italy had asked that Ukraine be placed on the agenda, noting similarities to the situation in Kazakhstan. The IMF reported that the recession seemed to be bottoming out, with GDP expected to contract 14% in 2009, followed by a 2.75% increase in ¶2010. Bank restructuring was progressing, with issues at three of the five systemically-important problem banks having been resolved. There was an agreement on the fourth, leaving only Nadra Bank. About \$1 billion in liabilities needed to be restructured, though there was agreement on \$120 million owed to export credit agencies (ECAs). An IMF mission planned to travel to Ukraine in October to prepare the third review of the IMF stand-by arrangement.

Vietnam

¶41. (SBU) The Paris Club discussed Vietnam because of arrears.

Denmark reported that Vietnam had missed a July 15 payment but had paid during the week of the meeting. Norway reported "on and off"

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payment trouble on a loan guaranteed by Norway's export credit agency. The IMF reported that the country was weathering the global crisis well, despite pressures on the country's balance of payments position. The IMF expected GDP to rise 4.5% in 2009 and the outlook for 2010 to improve. The World Bank reported that there were shortages of foreign currency, and that there appeared to be foreign exchange hoarding in expectation of a currency devaluation.

Zimbabwe

¶42. (SBU) The Secretariat had placed Zimbabwe on the agenda because a number of creditors had received requests from authorities to reconcile debts. (The U.S. has not.) The IMF indicated that a recovery had begun, with 4% growth expected in 2009. The government had implemented dollarization, was broadly adhering to cash budgeting, and had liberalized prices and exchange markets. Many issues needed to be addressed, however, including aid and capital inflows, the business climate, public sector wages, and central bank governance. Cooperation with missions and advisors had been good, and the government had agreed to make token payments of \$100,000/quarter against its Fund arrears; the first such payment had been made. However, the IMF Executive Board had decided to leave its relations with Zimbabwe unchanged, which means that Zimbabwe would remain ineligible for new IMF lending under a PRGF

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program until arrears were cleared. End-2008 public- and publicly-guaranteed external debt was estimated at \$5.7 billion, 313% of goods and services exports, and 182% of GDP. Most was in arrears.

¶43. (SBU) The Fund also summarized its contacts with the Government of Zimbabwe concerning use of the special SDR allocation. While there was no conditionality associated with the use of the allocation, Fund staff had advised the authorities to retain the SDRs in reserves so they could remain available for an eventual arrears clearance, rather than being spent to finance investment. The IMF also had no new information on a reported \$950 million Chinese loan mentioned by Germany. The Bank reported that its staff was setting up the multi-donor trust fund as well as a country office. A joint UN Development Program and African Development Bank needs assessment had been put on hold, though small grants were being made through NGOs.

¶44. (SBU) Creditors that reported requests to reconcile debt data mostly said that Zimbabwe's figures were well below theirs. There was a general feeling that the reconciliation exercise should be coordinated, though the U.S. warned that it was important not to raise unrealistic expectations in Harare about Paris Club debt treatment. It was agreed that the Secretariat would contact the Zimbabwean authorities informally, reminding them of the full list of Club creditors, and that the Club would launch a data call for

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its own use.

Methodological Issue:
Draft UK Vulture Fund Legislation

¶45. (SBU) The UK discussed its public consultation concerning draft legislation on legal efforts by so-called "vulture funds" to secure full repayment from poor debtors on loans the funds had bought at steep discount on secondary markets. The presentation mostly followed that of the public document, which can be accessed at the

following links:

www.hm-treasury.gov.uk/press_69_09.htm
[www.hm-treasury.gov.uk/d/
consult_effectivedebtreliet_200709.pdf](http://www.hm-treasury.gov.uk/d/consult_effectivedebtreliet_200709.pdf)

¶46. (SBU) Based on public comments received thus far, British NGOs believed that the proposal did not go far enough in restricting vulture funds' recovery rights, arguing that it should cover more countries and future lending. In contrast, financial firms asserted that the draft law would interfere with property rights, pervert incentives, threaten London's role as a financial center, and that it was disproportionate to the extent of the problem. The UK added that it was unclear whether the government would proceed with the

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legislation, which would require a ministerial decision.

¶47. (SBU) France, in particular, seemed interested in the prospects of legislation, and asked whether there was anything the U.S., as one of the main jurisdictions for litigation by vulture funds, could or would do. The U.S. reported on H.R. 2932, the bill that Representative Maxine Waters (D-CA) had reintroduced in June 2009, noting that the Administration was not supporting it and that the bill raised significant policy and legal issues. Privately, the UK delegation indicated that further technical work had uncovered significant legal obstacles, including how the legislation would treat requests to enforce in the UK awards made by foreign courts, and how foreign courts would be expected to consider the legislation when adjudicating debts covered by UK law.

Methodological Issue:
Data Call on Paris Club Claims

¶48. (U) The Secretariat proposed making the global data call, first conducted in September 2008, an annual exercise. The Secretariat suggested using year-end data, and that the request for (2009) data will therefore take place early in 2010.

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Methodological Issue:
Review of Debt Sustainability Framework
and Debt Limits in IMF Programs
Paris Club Implications

¶49. (U) The IMF provided a detailed briefing on recent reforms of Fund lending programs. The Secretariat also circulated a working paper analyzing which of the new IMF program types could provide a basis for Paris Club debt relief. In the Secretariat's view, the key requirements justifying Paris Club treatment remained: 1) a demonstrated financing gap, and 2) an appropriate IMF economic reform program. The new Extended Credit Facility (ECF) and Standby Credit Facility (SCF) could provide adequate bases for debt relief. The Rapid Credit Facility (RCF), however, would not. Countries using the new Flexible Credit Line (FCL) program seemed unlikely candidates for Paris Club debt relief, and the FCL's structure did not fit well with standard Paris Club debt relief agreements.

¶50. (U) The Fund also presented its new Debt Sustainability Framework (DSF) methodology. Creditors discussed how the Club would consider debts owed by state-owned enterprises (SOEs) that the Fund had decided to exclude from the debt sustainability analysis (DSA). The Secretariat reiterated its view that the Paris Club reserves the right to analyze independently the autonomy of the SOE and the risk of default during the period of the debt relief. A more general

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discussion of this methodology topic was deferred to a later meeting.

Methodological Issue:
Debt Service Reduction (DSR) Methodology

¶51. (U) The Secretariat presented a working paper, which revealed that the current methodology for calculating repayment schedules contains an error. As a result, some creditor countries provide less reduction than others do in the case of successive debt treatments for the same debtor country. The U.S. is not directly affected by this correction, since U.S. bilateral debt reduction agreements provide relief through actual reduction of principal (the so-called "debt reduction option"), rather than payment deferral only. However, the U.S. still has an interest in the relief provided by others.

Methodological Issue:
Working Group Regarding
Treatment of Guarantees

¶52. (SBU) At the July meeting, the Club had discussed inconclusively

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how it should address guarantees of loans that were not in default, both in data calls and debt treatments. A survey had shown that creditor practices varied widely, and that the issue raised a number of policy and legal questions (the latter for some creditors, including the U.S.). The Secretariat had decided to set up a working group, including ECA representatives, to consider the issue and establish a clearer Club policy. A brief organizational meeting was held after the Tour.

¶53. (SBU) The Secretariat invited creditor input ahead of the working group's first full meeting, probably in October and expected to focus on the scope of the issue and the economic and financial implications of including or excluding contingent liabilities. A second meeting would focus on legal problems, and a third would examine technical aspects of the issue using a concrete country example, such as Pakistan. Germany, one of countries that said it included all public and publicly-guaranteed loans -- whether in default or not -- in Paris Club data calls and treatments, asked for a clear explanation of the legal problems that other creditors claimed to face.

¶54. (U) For additional information on any of the countries or issues mentioned above, please contact EEB/IFD/OMA David Freudenwald at freudenwalddj@state.gov or Nicholle Manz at manznm@state.gov.

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